Annual Report: Canada Bread Company, Limited

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Canada Bread Company, Limited is a leading Canadian manufacturer of value-added flour based products. The Company's products include fresh bread, rolls and bagels; frozen bagels and dough products; par-baked bread products; and specialty pasta and sauces. Canada Bread maintains a national presence with three principal brand names: Dempster's, Olivieri and Tenderflake. Canada Bread Company, Limited is 68% owned by Maple Leaf Foods Inc.

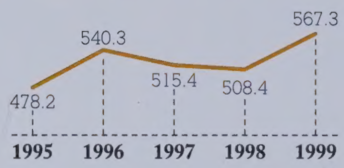
Solid progress was achieved in implementing the five point turnaround plan designed to get the fundamentals right in our core businesses. In 2000 our goal is to achieve critical mass in the implementation of these fundamentals and to continue to translate this into improved results.

(in thousands of dollars except per share amount)	1999	1998	1997	1996	1995
Consolidated Results					
Sales	**$ 567,251**	$ 508,445	$ 515,364	$ 540,251	$ 478,201
Earnings from operations, before unusual items (i)	**20,210**	19,392	36,366	37,131	32,652
Net earnings	**6,302**	2,896	31,117	25,006	21,905
Financial Position					
Net assets (ii) (iv)	**$ 270,979**	$ 282,940	$ 291,795	$ 277,276	$ 249,588
Shareholders' equity (iv)	**231,160**	229,998	232,408	205,172	185,245
Net borrowings	**16,314**	29,071	36,650	48,950	45,183
Per Share					
Net earnings	**$ 0.29**	$ 0.14	$ 1.46	$ 1.17	$ 1.04
Net earnings before unusual items (iii)	**0.55**	0.58	1.27	1.17	1.04
Dividends	**0.24**	0.24	0.24	0.24	0.24
Book value per share (iv)	**$ 10.79**	$ 10.74	$ 10.86	$ 9.62	$ 8.68

(i) Before taking account of a special earnings charge of $8.4 million in 1999 and $14.4 million in 1998.
(ii) Total assets, less cash and non-interest bearing liabilities.
(iii) Before taking account of a special earnings charge of $8.4 million ($5.4 million after taxes) in 1999, $14.4 million ($9.4 million after taxes) in 1998 and a profit on sale of business of $6.3 million ($4 million after taxes) in 1997.
(iv) Restated, see Note 14 to the consolidated financial statements.

Sales

(millions of dollars)

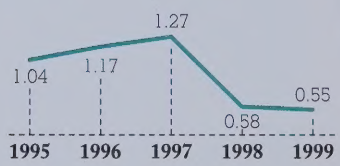


Sales growth driven by A&P contract, new pasta products and frozen exports.

Earnings per Share

Before unusual items

(dollars)

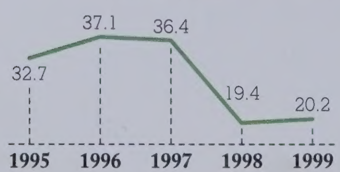


While 1999 earnings per share declined slightly, 3rd and 4th quarter results began to show improvement over last year.

Earnings from Operations

Before unusual items

(millions of dollars)



Improvements in fresh bread core processes and pasta growth drove 3rd and 4th quarter results.

During 1999 we initiated a turnaround of Canada Bread.

At the annual meeting last April, we outlined the reasons that your Company's financial performance had declined in 1998. These included a badly executed change to the organizational structure, systems and processes; lack of focus on the core pan bread and rolls business; and changes taking place in the industry – particularly in Atlantic Canada and Quebec.

By working together throughout 1999 on the five key priorities that underpin our turnaround plan, our 3,200 employees and 500 dealers made a substantial amount of progress in bringing the Company back into control in 1999. Let's review our progress under each of the five priorities.

Build Leadership Capacity.

We renewed the Company's executive team by bringing in four key executives from outside the Company to complement four strong industry executives within the Company. We attracted additional superior talent in consumer marketing, operations and finance – 25 new people in all – to begin the process of building the leadership we need to drive change and growth.

We developed a more transparent and engaged culture by opening extensive new communication channels. This enabled our leaders to develop a shared view of our problems and the actions necessary to fix them. We also began the process of building a shared set of leadership values.

Drive Performance Through Accountability and Teamwork.

The Company was organized into business teams to focus the efforts of each function in our five operating units on common goals. Frequent and rigorous review of performance in each unit and new tools for profit management ensured focused, prompt action. Each of these teams conceived and executed six to ten specific profit improvement initiatives in the second half of the year – about 80% of these have been fully implemented.

Get our Core Processes to Perform.

Hundreds of people in the fresh bread operation worked to get our order generation and fulfillment process functioning properly. The computer system that supports the process has been stabilized, decision rules changed and management processes redesigned, all leading to an improvement of 20 percentage points in customer service levels and a 40% reduction in waste.

The frozen operation rectified a number of problems in storage and manufacturing that had caused service levels to dip and costs to rise midyear.

Play to Win in the Marketplace.

The marketing function was restructured to strengthen both brand and category management, and populated with world class marketing talent. Baseline consumer insights and marketing plans were developed for each business. The new team worked closely with some of our biggest retail customers to review the bread category and develop plans to build it. The fresh bread sales force was re-organized to provide more hands-on leadership of our 700 driver/sales people who in turn began to use new computerized tools to improve freshness and stock position on

the shelves. We adjusted the size of our fresh bread organizations in Western, Eastern and Central Canada, consistent with volume changes that mirror the changing landscape of our retail customers. Olivieri Pasta increased distribution to continue to drive sales growth.

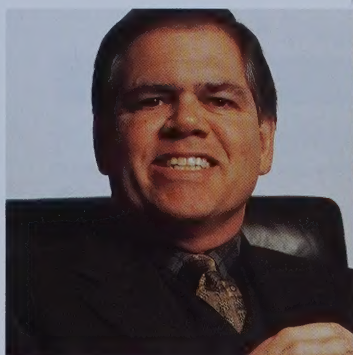
Balance Supply and Demand in the Industry.

We successfully integrated the A&P business and Hamilton Baking Company into our Ontario fresh bread business. We also identified other fresh bread consolidation opportunities and began to establish the relationships we need to access them.

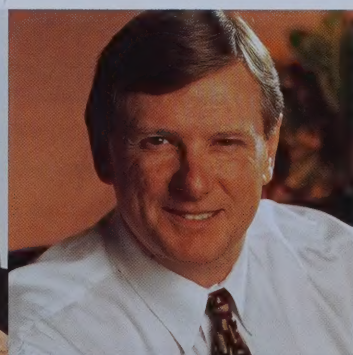
The benefits of these actions began to show in gradually improving financial results from operations, beginning in the third quarter. For the total year, earnings from operations before unusual items were $20.2 million, compared to $19.4 million a year ago, on total annual sales of $567.3 million, up 12% over last year. Operating earnings in the second half were up 41% over 1998. An earnings charge of $8.4 million related to administrative and manufacturing restructuring activities planned for 2000 has been reflected as a charge against operating earnings. These expenses relate to Company-wide cost reductions. Improving customer service, reductions in waste and more efficient marketing spending began to reverse the earnings decline in the fresh bread business. Sales growth in the frozen operation was partially offset by operational problems, which were addressed by the fourth quarter. Olivieri Pasta showed continuous gains in sales and enjoyed reductions in costs.

By the last quarter of the year the most extreme crises that the Company has suffered in its history had come under sufficient control that we began to focus and work on a series of opportunities to improve operating margins.

Looking ahead, the key priorities for 2000 are the same as in 1999: to focus on the fundamentals in our core businesses. We will continue to **build leadership capacity**. We have targeted another 30 positions to infuse with talent in 2000. We will increasingly **drive performance through accountability and**



Richard A. Lan
Chairman of the Board



Roger M. Dickhout
President and Chief Executive Officer

teamwork. We are implementing a set of externally focused performance measures to augment our now rigorous internal financial reports and strengthening general management of our operating units. We will remain intensely focused on **getting our core processes to perform**. We have targeted a further 30% reduction in supply chain waste and a 35% reduction in manufacturing waste in 2000. We are reducing salaried staff by 6%. We will **aggressively play to win in the marketplace**. We are repositioning some of our leading brands – Dempster's, Olivieri, and Tenderflake – underpinned by new consumer insights, and we are implementing better pricing controls. Finally, we will increasingly look for opportunities to **balance supply and demand in the industry**. We are prepared to act on consolidation opportunities.

In summary, we made solid progress in 1999 in putting the fundamentals in place at Canada Bread. In 2000 we will follow through on what we started in 1999. Our goal is to achieve a critical mass of implementation on these fundamentals in the next year and to continue to translate these efforts into improved financial results. We intend to stay the course to get the returns our shareholders deserve.

In closing, we wish to acknowledge the tireless efforts of Canada Bread's employees as we worked toward achieving our common goals in 1999 and take aim at our priorities in 2000.

Financial Results

This financial review and analysis should be read in conjunction with the Consolidated Financial Statements and related notes included in the Annual Report to Shareholders of Canada Bread.

Sales:

Sales of $567.3 increased by 11.6% compared to 1998 sales of $508.4. The sales increase was attributable to volume growth in all business lines, although fresh bread sales were the largest contributor to the increase, due to a new long term supply agreement with The Great Atlantic & Pacific Company of Canada Limited.

Earnings from Operations:

Earnings from Operations showed improvement in the third and fourth quarters as turnaround efforts yielded some improvements. Management expects earnings to improve in 2000 over 1999, however, because of the many changes that have been and continue to be made, quarterly results will continue to be difficult to predict.

Earnings from Operations before unusual items were $20.2 million, compared to $19.4 million in 1998. The impact of increased sales for the year was partially offset by lower margins, particularly on fresh and frozen sales as a result of higher systems costs, higher manufacturing and supply chain costs and higher waste in the supply chain, all of which improved in the latter half of the year.

Point 1

Build Leadership Capacity

1999 Highlights

- Renewed executive group with four new members
- Infused talent into 25 key positions in fresh bread marketing, operations, and finance
- Opened communication channels throughout the organization
- Planted new leadership values

2000 Priorities

- Hire 30 new people into key positions
- Propagate leadership values through the organization – especially "be externally focused" and "continuous improvement"

Unusual Items:
The Company recorded an earnings charge of $8.4 million related to certain restructuring planned for 2000 and this has been reflected as a charge against operating earnings. These expenses relate to a Company wide cost reduction effort.

Other Income:
Included in Other Income is the equity earnings share of Canada Bread's 25% investment in Multi-Marques Inc. These equity earnings decreased to $1.4 million from $2.4 million in 1998.

Financial Condition

Liquidity and Capital Resources:
Canada Bread finances its operations primarily out of cash flow from operations. In addition, to provide it with further liquidity, the Company and its subsidiaries have aggregate lines of credit of $77 million at year-end with major Canadian banks. Of this amount, $40 million is a revolving term loan under which $14.5 million was drawn at year-end. A further $1.4 million was drawn under the remaining $37 million of operating lines. During 1999, Canada Bread added an additional $10 million to its accounts receivable securitization program which was set up in 1998 to provide an alternative source of competitively priced financing. At year-end $20 million of accounts receivable had been

Point 2

Drive Performance Through Accountability and Teamwork

1999 Highlights

- Galvanized cross functional teamwork around common performance goals
- Implemented 40 local profit improvement efforts leading to, for example, reduced returns, lower truck maintenance spending, improved marketing spending and increased distribution coverage

2000 Priorities

- Continue to evolve the business team structure to strengthen general management
- Drive performance to more externally focused metrics

sold under this program compared to $10 million in 1998.

Management is of the opinion that current sources of funding provide the Company with sufficient resources to finance on-going business requirements and its planned capital expenditure program. Management also believes that if further financial resources were required, the Company's balance sheet strength and cash flow from operations would provide it with access to significantly greater funding.

Dividends:

Dividends paid in 1999 equaled $0.24 per share (1998: $0.24), resulting in a cash outflow of $5.1 million (1998: $5.1 million).

Capital Investments:

Net additions to fixed assets increased to $21.4 million from $14.4 million in 1998. Principal investments during the year included the purchase and installation of a new par-bake line in the Etobicoke facility, and improvements to the Hamilton baking facility which was purchased in 1998. The Company continued to upgrade its computer systems throughout the year. In 1998, capital expenditures included the purchase and installation of a new par-bake hearth bread line and the relocation of the Venice bakery to new premises in British Columbia.

Risk Management:

The Company has financial risk to varying degrees relating to

Point 3

Get Core Processes to Perform

1999 Highlights

- Achieved 20 percentage point improvement in on time delivery
- 40% reduction in sales waste of fresh bread by stabilizing the order generation and fulfillment systems
- Redesigned logistics chain in frozen bakeries

2000 Priorities

- Exceed customer expectations for service and quality
- Sustain gains in order generation and fulfillment process
- Reduce salaried overhead by 6%
- Reduce waste in manufacturing processes by 35%

interest rates, foreign exchange and commodity pricing. The cost of flour, which represents a large component of the Company's raw material costs, is directly impacted by wheat prices and quality, which are often volatile. The Company manages its exposure to fluctuating flour prices through the use of forward purchase contracts.

Canada Bread also manages its exposure to interest rates by the use of interest rate derivative financial instruments, while foreign exchange currency contracts are used where appropriate to fix exchange rates on export sales and expenditures denominated in foreign currencies. *Information on the Company's use of derivative products and its year-end positions is set out in note 7 to the consolidated financial statements.*

Environment:
Canada Bread is conscious of its responsibility to the environment, and operates within an overall environmental policy that has been formally approved by the Board of Directors. The Board of Directors monitors compliance with the policy on a regular basis. The Company's emphasis

Point 4

Play to Win in the Marketplace

1999 Highlights

- Restructured marketing to strengthen brand and category management
- Conducted category management review with three major customers
- Developed baseline consumer insights and marketing plans
- Reorganized fresh bread sales force and adjusted size to correspond with customer shifts
- Increased distribution in pasta business

2000 Priorities

- Develop category partnerships with top three to six customers in each of our businesses
- Improve mix and pricing management
- Reposition and reinforce current brands around more compelling consumer insights
- Upgrade key account and street business selling

on the environment extends to the operations of its plants and the impact of these operations on air and water quality, the handling of toxic and dangerous chemicals and the use of packaging. The Company strives to exceed required environmental compliance and to provide a safe workplace for its employees. Resources, training and capital expenditures are directed to these areas to ensure that the Company continues to meet its responsibilities. The Company is in material compliance with existing environmental legislation. Expenditures relating to current environmental requirements are not expected to have a material effect on the financial position or earnings of the Company.

Related Party Transactions: Maple Leaf Foods Inc. and its subsidiary, Maple Leaf Foods USA Inc., provide certain management and other services to Canada Bread. The Company's Audit Committee reviews these arrangements on a regular basis. *See note 13 to the consolidated financial statements for further details.*

Change in Accounting Policy: The Company will adopt the new accounting requirements for accounting for income taxes effective January 1, 2000. The effect of adopting the new requirements has not been determined.

Point 5

Balance Supply and Demand in the Industry
1999 Highlights
■ Integrated Hamilton bakery and A&P volume into Ontario manufacturing and distribution system
■ Identified fresh bread consolidation opportunities, did homework and established relationships to access
2000 Priorities
■ Pursue consolidation opportunities

Management's Statement of Responsibility

Management recognizes its responsibility for conducting the Company's affairs in the best interests of all its shareholders. The consolidated financial statements and related information in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles which involve the use of judgement and estimates in applying the accounting principles selected. Other financial information in the annual report is consistent with that in the consolidated financial statements.

The Company maintains systems of internal controls which are designed to provide reasonable assurance that accounting records are reliable and to safeguard the Company's assets. The Company's independent auditors, KPMG LLP, Chartered Accountants, have audited and reported on the Company's consolidated financial statements. Their opinion is based upon audits conducted by them in accordance with generally accepted auditing standards to obtain reasonable assurance that the consolidated financial statements are free of material misstatement.

The Audit Committee of the Board of Directors, all of whom are independent of the Company or any of its affiliates, meets periodically with the independent external auditors, the internal auditors and management representatives to review the internal accounting controls, the consolidated quarterly and annual financial statements and other financial reporting matters. Both the internal and independent external auditors have unrestricted access to the Audit Committee. The Audit Committee reports its findings and makes recommendations to the Board of Directors.

Roger Dickhout

R.M. Dickhout

President and Chief Executive Officer

M.H. Vels

Chief Financial Officer

Auditors' Report

To the Shareholders of Canada Bread Company, Limited

We have audited the consolidated balance sheets of Canada Bread Company, Limited as at December 31, 1999 and December 31, 1998 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and December 31, 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada,

February 4, 2000.

(thousands of Canadian dollars) As at	December 31, 1999	December 31, 1998
Assets		**Restated**
Current Assets:		(note 14)
Accounts receivable (note 3)	$ 25,324	$ 27,029
Due from related company (note 13)	4,290	3,330
Inventories	17,898	13,599
Prepaid expenses	1,945	3,334
Income taxes receivable	—	3,874
	49,457	51,166
Investment in associated company	46,128	45,768
Property and equipment (note 5)	166,290	160,773
Goodwill	77,490	80,565
	$ 339,365	$ 338,272
Liabilities and Shareholders' Equity		
Current Liabilities:		
Bank indebtedness (note 6)	$ 1,436	$ 2,121
Accounts payable and accrued charges	64,394	54,047
Dividends payable	1,285	1,285
Income taxes payable	2,707	—
Current portion of long-term debt (note 6)	106	76
	69,928	57,529
Long term debt (note 6)	14,772	26,874
Deferred income taxes	23,505	23,765
Minority interest	—	106
Shareholders' equity (note 8)	231,160	229,998
	$ 339,365	$ 338,272

See accompanying notes to consolidated financial statements

On behalf of the Board:

Roger Dickhout Director

John Bragg Director

Consolidated Statements of Earnings

(thousands of Canadian dollars, except per share amounts) Years ended	**December 31, 1999**	**December 31, 1998**
Sales	$ 567,251	$ 508,445
Earnings from operations, before unusual items	20,210	19,392
Unusual items (note 4)	(8,350)	(14,401)
Earnings from operations	11,860	4,991
Other income (note 10)	1,370	2,568
Earnings before interest and taxes	13,230	7,559
Interest expense (note 6)	2,174	2,181
Earnings before income taxes	11,056	5,378
Income taxes (note 11)	4,754	2,472
Earnings before minority interest	6,302	2,906
Minority interest	—	(10)
Net earnings	$ 6,302	$ 2,896
Earnings per share (note 9)	$ 0.29	$ 0.14

See accompanying notes to consolidated financial statements

Consolidated Statements of Retained Earnings

(thousands of Canadian dollars) Years ended	**December 31, 1999**	**December 31, 1998**
		Restated
Retained earnings, beginning of year (note 14)	$ 193,033	$ 195,275
Net earnings	6,302	2,896
Dividends declared	5,140	5,138
Retained earnings, end of year	$ 194,195	$ 193,033

See accompanying notes to consolidated financial statements

(thousands of Canadian dollars) Years ended	**December 31, 1999**	**December 31, 1998**
Operating Activities		
Net earnings for the year	$ 6,302	$ 2,896
Add (deduct) items not affecting cash:		
Depreciation	17,026	14,773
Amortization	3,075	2,800
Undistributed earnings of an associated company	(360)	(645)
Deferred income taxes	2,663	4,554
Minority interest	—	10
Non-cash amounts included in unusual items	5,428	4,495
Changes in non-cash working capital	5,122	4,048
Cash provided from operating activities	39,256	32,931
Financing Activities		
Dividends	(5,140)	(5,137)
Repayment of long-term debt (note 6)	(12,072)	(4,140)
Issue of share capital (note 9)	—	370
Cash provided from (used in) financing activities	(17,212)	(8,907)
Investing Activities		
Additions to property and equipment	(21,359)	(14,376)
Purchase of net assets of business (note 12)	—	(6,188)
Cash used in investing activities	(21,359)	(20,564)
Net increase in cash during the year	685	3,460
Bank indebtedness beginning of year	(2,121)	(5,581)
Bank indebtedness end of year	$ (1,436)	$ (2,121)
Supplementary Information		
Interest paid	2,178	2,599
Taxes paid	—	10,526

See accompanying notes to consolidated financial statements

1. The Company

Canada Bread Company, Limited ("Canada Bread" or the "Company") and all of its subsidiaries operate in the bakery industry. Its principal business comprises the manufacture and sale of a variety of bakery and pasta products including fresh bread and rolls, bagels and par-baked bread. Canada Bread is 68% owned by Maple Leaf Foods Inc. ("Maple Leaf").

2. Significant Accounting Policies

The following are the significant accounting policies of the Company:

The preparation of periodic financial statements necessarily involves the use of estimates and approximations. Should the underlying assumptions change, the actual amounts could differ from those estimated.

a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of Canada Bread and its subsidiaries.

The Company owns a 25% interest in Multi-Marques Inc. of Quebec which is accounted for using the equity method.

b) Inventories

Inventories, consisting primarily of ingredients and supplies, are valued at the lower of cost and replacement cost, as determined using the first-in, first-out method.

c) Property and equipment

Property and equipment are recorded at cost including, where applicable, interest capitalized during the construction or development period. Depreciation is calculated using the straight-line basis at the following rates which are based on the expected useful life of the asset:

Buildings	2½% – 5%
Machinery and equipment	7½% – 33⅓%
Leasehold improvements	over the term of the lease

d) Goodwill

The excess of the purchase price over the estimated fair value of identifiable net assets acquired represents goodwill. Goodwill is amortized substantially over forty years on a straight-line basis. The Company annually reviews the carrying value of goodwill to determine if an impairment has occurred. The Company measures the potential impairment of goodwill by comparing the undiscounted value of expected future operating income before income taxes, interest and amortization of goodwill to the carrying value of goodwill. Any permanent impairment in the value of goodwill is written off against earnings.

e) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. Exchange gains and losses are recognized in current earnings.

f) Pension costs and obligations

The Company and its subsidiaries maintain defined benefit pension plans which provide retirement benefits for the employees. The market value of pension assets is determined using a five-year moving average basis. Pension obligations are determined by the Company's actuaries, using the accrued actuarial method and based on management's best estimate assumptions. Changes in the net value of pension assets or obligations arising from experience gains or losses, changes in assumptions and plan amendments and the net pension asset not previously recognized at the date the policy was implemented are amortized on a straight-line basis over the expected average remaining service life of the employee groups covered by the plans.

g) Change in accounting policies

Effective January 1, 1999 the Company has adopted the new accounting requirements of the Canadian Institute of Chartered Accountants ("CICA") for Cash Flow Statements. Under these new requirements, the Consolidated Statements of Cash Flows provides information with respect to changes in cash and cash equivalents and classifies cash flows during the period arising from operating, financing and investing activities and excludes non-cash transactions which were previously included in the Statement of Changes in Financial Position. Cash and cash equivalents are defined as cash, short-term securities with maturities of less than 90 days, less bank indebtedness.

The Company has also changed the method of accounting for post-retirement benefits other than pensions from a cash basis to an accrual basis. (See note 14.)

h) Financial instruments

The Company enters into hedging arrangements to manage its exposure to currency, commodity price and interest rate fluctuations. The gains and losses on these hedging instruments are recognized in the consolidated financial statements in the same period and are matched with the same financial statement category as the income or expense item to which the hedged position relates. Any accrued amounts receivable and payable under the terms of such contracts are included in accounts receivable and accounts payable, respectively.

i) Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

3. Accounts Receivable

Under a revolving securitization program the Company has sold, with limited recourse, certain of its trade accounts receivable to a bank. At December 31, 1999, trade accounts receivable amounting to $20 million (1998 – $10 million) had been sold under this program.

4. Unusual Items

The Company recorded a charge of $8.4 million ($5.4 million, net of tax) to cover costs related to further centralization and streamlining of administrative and operating processes. A charge of $14.4 million ($9.4 million, net of tax) was recorded in 1998 for the costs associated with writing down the carrying value of several operations designated for closure and assets identified as non-core and the costs of a restructuring program.

5. Property and Equipment

	1999	1998
Cost		
Land	$ 13,198	$ 13,198
Buildings	50,272	46,439
Machinery and equipment	197,384	176,156
Construction in progress	13,511	16,868
	274,365	252,661
Accumulated depreciation		
Buildings	14,288	12,570
Machinery and equipment	93,787	79,318
	108,075	91,888
Net book value	$ 166,290	$ 160,773

6. Financing

Bank indebtedness

The Company has demand operating facilities of $37 million for short term borrowing requirements which bear interest at short term rates. Drawings under these facilities were $1.4 million at December 31, 1999 (1998 – $2.1 million). Net interest expensed on short-term debt and accounts receivable securitization during the year was $0.9 million (1998 – $0.3 million).

Long term debt

The Company has two 364-day revolving committed facilities with Canadian chartered banks, each for $20 million. Of these facilities, $20 million is available through September 2003 and is extended annually at the lender's option. The second $20 million facility will mature in December 2001. These facilities bear interest based on Banker's Acceptance rates for Canadian dollar loans and LIBOR for US dollar loans.

	1999	1998
Revolving term facility	$ 14,500	$ 26,600
Obligations under capital leases and other long-term debt	378	350
	14,878	26,950
Less current portion	106	76
	$ 14,772	$ 26,874

Interest on long-term debt expensed during the year was $1.3 million (1998 – $1.9 million).

7. Financial Instruments

In the ordinary course of business, the Company enters into derivative financial instruments to reduce underlying cash flow risks associated with foreign currency and interest rates. The Company does not use derivative financial instruments for trading or speculative purposes.

Foreign currency risk management

The Company uses forward contracts to manage its cash flow exposure to sales or purchases denominated in foreign currencies, primarily U.S. dollars.

At December 31, 1999 the Company had outstanding commitments to sell forward US$7.2 million (1998 – US$10.2 million) to Maple Leaf. The Company has designated these contracts as a hedge of export sales in future fiscal periods as follows:

2000	US$3.0 million
2001	US$3.0 million
2002	US$1.2 million

Based on the exchange rate at December 31, 1999, the Company would have incurred a loss of $0.2 million to settle these contracts (1998 – loss of $1.1 million).

Interest rate risk management

The Company uses interest rate conversion agreements ("swaps") to manage its exposure to interest rate fluctuations associated with the Company's debt balance. At December 31, 1999 the Company had one swap contract, with a notional amount of $24 million and a maturity date of June 10, 2008, in place with Maple Leaf. Under this swap contract, the Company pays 5.64% and receives the 90-day Banker's Acceptance rate on the notional amount.

The Company's blended average cost of borrowing for the year ended December 31, 1999 was 5.5% (1998 – 5.5%) after including the payments made under swap contracts in place in 1999.

Based on the market value of the swap contract at December 31, 1999, the Company would have realized a gain of $1.6 million to terminate the contract (1998 – loss of $0.6 million). The market value of the swap contract was determined by obtaining a quote from a bank for a similar financial instrument.

8. Shareholders' Equity

	1999	1998 Restated (note 14)
Share capital	$ 36,965	$ 36,965
Retained earnings	194,195	193,033
	$ 231,160	$ 229,998

9. Share Capital

Details of share transactions during the year are as follows:

	Unlimited Common Shares	
	Shares	Amount
Balance December 28, 1997	21,392,812	$ 36,595
1998 transactions:		
Issued for cash on exercise of options	24,000	370
Balance December 31, 1998 and December 31, 1999	21,416,812	$ 36,965

The Board of Directors have approved the issue of stock options to certain members of the Company's management. Up to 940,000 shares may be issued under this plan. To date 637,000 options have been granted, all of which have been exercised or canceled. Options to purchase 303,000 shares remain available to be granted in the future.

Certain employees and officers of the Company participate in the Maple Leaf stock option plan. No costs are charged to the Company for participation in this plan.

10. Other Income

	1999	1998
Earnings from an associated company	$ 1,423	$ 2,398
Gain on sale of property and equipment	46	82
Other	(99)	88
	$ 1,370	$ 2,568

11. Income Taxes

A reconciliation comparing income taxes (on earnings before income taxes excluding equity earnings from an associated company) calculated at the statutory rates to the amount provided in the accompanying consolidated financial statements is as follows:

	1999			1998		
	Total	Special Charge	Excluding Special Charge	Total	Special Charge	Excluding Special Charge
		(note 4)			(note 4)	
Combined statutory rates	$ 4,960	$ (3,746)	$ 8,706	$ 2,412	$ (6,460)	$ 8,872
Increase (decrease) from:						
M & P credit	(857)	647	(1,504)	(387)	1,036	(1,423)
Non taxable (gains) losses	(295)		(295)	(133)	40	(173)
Non-deductible goodwill amortization	1,139		1,139	1,344	352	992
Equity in earnings of associated companies	(566)		(566)	(954)		(954)
LCT	205		205	378		378
Other	168	177	(9)	(188)	54	(242)
Total income taxes	$ 4,754	$ (2,922)	$ 7,676	$ 2,472	$ (4,978)	$ 7,450
Represented by:						
Current income taxes			$ 3,361		$ (2,516)	$ 2,896
Deferred income taxes		(2,922)	4,315		(2,462)	4,554
		$ (2,922)	$ 7,676		$ (4,978)	$ 7,450

12. Acquisitions

On November 7, 1998, the Company acquired the shares of Hamilton Baking Company (1998) Limited of Hamilton, Ontario.

Acquisitions are accounted for by the purchase method with the results of operations being consolidated with those of the Company from the date of acquisition.

Details of the net assets acquired at assigned values are as follows:

	1998
Net working capital	$ (127)
Property and equipment	957
Goodwill	4,767
	5,597
Long term debt assumed	(21)
Deferred tax	612
Total consideration	$ 6,188

13. Related Party Transactions

a) A significant portion of the Company's sales to the U.S. and other export markets are through related companies during the normal course of operations and have been recorded at market amounts.

b) Maple Leaf provides the Company with certain management services including treasury, taxation, internal audit, accounting and access to bulk purchasing programs. Pursuant to a Management and Affiliation Agreement entered into in August 1995, the Company paid a management and affiliation fee of $3.2 million (1998 – $3.4 million) to Maple Leaf which approximates the cost of providing these services.

c) The Company entered into a Management Services Agreement with Maple Leaf Foods USA Inc. (Maple Leaf USA), whereby Maple Leaf USA administered and supervised the management of the Company's U.S. operations commencing January 1996. The cost of providing this service was included in the management and affiliation fee. Both agreements were approved by the independent members of the Board of Directors. Under this arrangement, sales of product in the U.S. that is manufactured in the Company's facilities are managed by Maple Leaf USA. The sales value and profitability related to these sales are recorded in the Company's financial statements.

d) The Company receives certain information system services from Maple Leaf and is charged for direct costs incurred.

14. Pension

The approximate present value of accrued pension benefits at December 31, 1999 was $50.5 million (1998 – $50.3 million). The net assets of these pension plans, at market related values, were approximately $66.1 million (1998 – $62.3 million).

The Company also provides certain post retirement benefits other than pensions to retirees. Effective January 1, 1999 the Company elected to retroactively change the method used to account for post retirement benefits other than pensions from a cash basis to an accrual basis. Opening retained earnings as at January 1, 1998 has been reduced by $0.5 million; a liability of $0.9 million has been recorded and related deferred income taxes have been recorded for $0.4 million.

15. Commitments and Contingencies

The Company has operating lease commitments in respect of property and equipment used in operations which require minimum annual payments as follows:

2000	$ 10,155
2001	8,794
2002	6,867
2003	5,858
2004	4,636
Thereafter	2,170
	$ 38,480

In the normal course of business, the Company enters into sales commitments with various customers, and purchase commitments with various suppliers. These commitments are for varying terms, and can provide for fixed or variable prices. The Company believes these contracts serve to reduce risk, and it is not anticipated that losses will be incurred on these contracts.

Corporate Directory

Directors

R.A. Lan

Chairman of the Board

J.L. Bragg

R.M. Dickhout

S.A. Everett

C.J. Mayer

G.W.F. McCain

J.S. McCain

M.H. McCain

T.P. Muir

J.F. Petch

Senior Management

R.M. Dickhout

President and Chief Executive Officer

D.A. Bradd

Executive Vice-President, Operations

R.I. Busch

Senior Vice-President, Human Resources

D.E. Grover

Vice-President, Food Service Sales

D.J. MacFarlane

Senior Vice-President, Marketing

A.G. Sellery

Senior Vice-President and General Manager, Fresh Bakeries, Western Canada

C.T. Sparkes

Senior Vice-President and General Manager, Fresh Bakeries, Central Canada

M.H. Vels

Chief Financial Officer

S. Weinberger

Senior Vice-President, Finance

Shareholder Information

Auditors

KPMG LLP

Registrar and Transfer Agent

Montreal Trust Company of Canada, Limited

Head Office

10 Four Seasons Place
Etobicoke, Ontario M9B 6H7
(416) 622-2040

Annual Information Form

Copies of the Company's Annual Information Form, filed with regulatory authorities, are available from the Corporate Secretary, upon request.

Annual Meeting

The Annual Meeting of the Shareholders of Canada Bread Company, Limited will be held at the Royal York Hotel, Upper Canada Room, 100 Front Street West, Toronto, Ontario, on Thursday, May 4, 2000, at 10:00 o'clock in the forenoon.

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